BOOK REVIEWS AND NOTICES

Speculation and the Chicago Board of Trade. By JAMES E. BOYLE. Macmillan Co., 1920. Pp. x+277.

This little book, as its title indicates, attempts two quite distinct tasks—a description of the Chicago Board of Trade, with an appraisal of the value of its services, and a discussion of the social value of speculation. The attempt to cover both these topics results in an excessive compression of parts of the discussion and in a noticeable lack of unity, for on the one hand the Board of Trade is not primarily an agency of speculation, and on the other hand speculation cannot be discussed adequately as a by-product of the grain trade.

After two introductory chapters on the economic function of a market and the place of Chicago as a grain market, chapters iii and iv (100 pages) describe the structure and operations of the Board of Trade. Chapter v, which comprises nearly half the book, is entitled "The Chicago Board of Trade and the Problem of Speculation," but is really a discussion of speculation in general, only two or three pages having special reference to the Board of Trade.

The book offers a readable presentation of a subject in which the public is greatly interested and in relation to which there is, as the author says, the greatest need of more light and less heat. Few people are more thoroughly conversant with the grain trade than is Professor Boyle, and his book contributes its quota of light, though it cannot be said to be free from heat. The author is thoroughly convinced of the soundness of our present system of marketing grain and of the vital importance of such institutions as the Board of Trade, and he loses no opportunity to demolish an opponent. He finds no dearth of vulnerable adversaries, and on the whole makes out an excellent case. For the general reader, to whom it is presumably addressed, the book should prove both interesting and useful, though marred by its controversial atmosphere.

Economists and other special students of marketing and of speculation, on the other hand, will be disappointed that a work so well done and so well worth doing should not have been done better. On the marketing side, little is added to the descriptions already given us by such writers as Weld and Huebner, while the discussion of the theory

of speculation is distinctly less penetrating than the work of Emery and of Brace. Moreover, either on account of haste or limitation of space, important elements are omitted from the descriptive sections, and controversial questions are often disposed of by a half-finished analysis or a citation of evidence sound in quality but inadequate to support the conclusion.

Turning first to the section describing the Board's organization and operations, we find bare mention given to the trade in pork products, both cash and futures, though the latter is a unique feature of the Chicago Board. The rules and customs concerning deliveries on future contracts are not explained, though there is a good description of direct settlement and "ringing out." Other minor omissions are the activities of "spreaders," the futures trade in barley, and the connection of the Board of Trade with the cash trade in flaxseed and minor grains. The discussion of options (88–89) fails to make their use clear, and the price paid for an option is wrongly called a margin. The extent of the protection offered by a hedging contract is exaggerated: "A person who is neither long nor short is running no risk, he is hedged" (p. 34). The reader should be cautioned that when the price of cash grain is above the futures the difference cannot be hedged, and that cash prices, especially for "off grades," often fluctuate quite differently from the futures.

Chapter iv contains some very interesting historical material and an analysis of one day's market which is one of the book's most valuable features, as it includes new data concerning the volume and character of the contract trade. On the chosen day about two million bushels of cash grain and thirty-six million bushels of futures were sold, 80 per cent of the futures trading being members' own trades. As is pointed out, this shows an expenditure for commissions far lower than the figures which are often cited from guesswork.

In the section dealing with speculation two conclusions are advanced, first, that speculation is not a cause of the larger price fluctuations, and second, that it does not make for either high or low prices, but tends to stabilize prices near the supply and demand level. This has long been accepted economic theory and in the absence of conflicting evidence may be presumed to be correct. It cannot be said, however, that Professor Boyle's analysis adds to our confidence in the theory. On the first point, the range of fluctuations, this argument is offered: "No speculators are trading in government bonds of the United States Government." (Are we so sure of this?) "Yet the price of these bonds

fluctuates from day to day." This is supported by tables of monthly prices showing a twelve-month range of three and a half points for coupon bonds of 1925 and of five points for Panama 3's of 1961. "They offer proof that prices fluctuate wholly independent of speculators" (p. 122). Two questions suggest themselves at once to a captious reader: first, might not the very smallness of these fluctuations be turned into an argument in rebuttal, and second, is a proof that prices fluctuate independently of speculation exactly relevant to the question whether speculation is *one* cause of fluctuation?

Again, in the same connection, we are given comparative tables showing a much greater annual range of prices (1899–1916) in barley than in oats and wheat. (Barley had at that time no futures market.) But an examination of the original figures in the Reports of the Board of Trade shows that the oats and wheat prices are for contract grade, while the barley prices are for the whole range from inferior to choice! Comparable figures for barley are not available, but prices of No. 2 rye for the same period, which are published by the Board of Trade, show a fluctuation smaller than that of wheat in twelve years and smaller than that of oats in fourteen years out of the eighteen, although there was no futures trade in rye.

Professor Boyle's second proof, a comparison of the range of wheat prices over twenty-year periods before and since the introduction of future trading is also unconvincing. The years of the Great War are excluded from the comparison, but no account is taken of the equally disturbing influence of the Napoleonic Wars, and we are given no assurance that the earlier figures are for a uniform grade of wheat. In any case, the improvement in transportation and communication, for which the author notes that allowance must be made, seems quite adequate to account for the entire change.

Concluding pages deal with the evils of speculation and offer certain suggestions for reform. The reforms suggested are, first, education; second, government inspection of the books of commission houses; and third, certain modifications in the practices of the Board. The objective of the education program is to teach the public what a very slender chance the amateur has, thereby reducing the number of unfit speculators who trade on insufficient information. Apparently it is implied that if we could eliminate this group all the rest could continue to make money, but the point is not worked out. This is the crucial difficulty in the whole problem of eliminating the evils of speculation. The social benefits of a broad speculative market for hedging purposes

are generally admitted, but it is hard to see how such an organization can exist unless we have a group of losers as well as a group of winners. Eliminating the present group of losers would apparently lift the level of competition and crowd some of those who are now above the margin of competence into the losing group. The fallacy is similar to that of the reformers who propose to permit hedging sales but eliminate the speculators who buy the hedges.

The detailed reforms proposed seem to be sound—greater care and scrutiny in admitting new members, stricter rules concerning the taking on of new customers, and a closer censorship of market news letters. The proposal for government inspection of books of commission houses is intended to protect the public from the risk of losing margins and profits through insolvency of commission houses. This seems quite in line with the trend of our political development. It is not clear, however, what purpose is to be accomplished by publishing, as Professor Boyle suggests, the total amount of bad debts on the books of solvent firms.

The twenty-two appendices contain a considerable amount of interesting material. The most valuable is Appendix 20, a set of twenty documents showing the life-history of a car of grain consigned by a country dealer to a Chicago commission house.

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The Nonpartisan League: Its Birth, Activities and Leaders. By WILLIAM LANGER, Attorney-General of North Dakota. Published under Penalty of the Anti-Liar Law of North Dakota providing for one year in the Penitentiary. Mandan, N.D.: Morton County Farmers Press, 1920. Pp. 240. $1.65.

In the Northwest there are no neutrals on the subject of the Nonpartisan League. It was and is a fighting organization. Langer's book is the third one on that subject, and, like its predecessors in one respect, it is written by one on the inside. But it is a heated and vigorous frontal attack on the League. It cannot, however, be dismissed as a mere partisan bit of writing, since it is supported in legal fashion by documentary evidence. As attorney-general of the state, a position to which he was twice elected by the League, Langer was a member of the small inner council that knew all the devious workings of the League leaders.